

## Message Text

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ACTION EUR-25

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TAGS: ECON, OECD, YO

SUBJECT: EDRC REVIEW YUGOSLAV ECONOMY, JUNE 27

REF: A. EDR (73)16; B. OECD 16923

1. SUMMARY: YUGOSLAV REVIEW FOCUSED PRINCIPALLY ON PROBLEM INFLATION AND TO LESSER EXTENT ON LABOR EMIGRATION. YUGOSLAV DELEGATION AGREED WITH REVIEW ANALYSIS AND CONCLUSIONS WITH BUT FEW SMALL EXCEPTIONS. END SUMMARY.

2. YUGOSLAV DELEGATION HEADED BY GOVERNOR COLANOVIC OF NATIONAL BANK THOUGHT DRAFT SURVEY (REF DOC A) WAS WELL WRITTEN, ANALYSIS CORRECT, AND BALANCE GOOD. THEY SAID INFLATION MOST IMPORTANT PROBLEM FACING GOVERNMENT, AND MATTER OF SERIOUS CONCERN. THEY THOUGHT, HOWEVER, SURVEY PRESENTATION THIS SUBJECT SHOULD BE BROADENED TO TAKE ACCOUNT YUGOSLAVIA IS DEVELOPING COUNTRY AND ITS INSTITUTIONAL BASIS IS DIFFERENT FROM OTHER OECD MEMBERS.

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3. COLANOVIC NOTED THAT BOTH COST AND DEMAND INFLATION

PRESENT IN ECONOMY BUT COST-PUSH MORE IMPORTANT.  
SERIOUS EFFORTS WERE BEING MADE TO GET WAGE PRESSURES  
UNDER CONTROL. HE ALSO SAID SOME INFLATION BEING  
IMPORTED SINCE TWO-THIRDS CAPITAL GOODS NEEDS AND OVER  
ONE-FIFTH RAW MATERIAL REQUIREMENTS SUPPLIED FROM  
ABROAD. SUBSTANTIAL RISES PRICES THESE ITEMS, AS WELL  
AS EXCHANGE RATE ADJUSTMENTS, HAD CONTRIBUTED SOMETHING  
TO YUGOSLAV INFLATION. AFTER SUMMARIZING MEASURES IN  
MONETARY AND INCOMES POLICIES WHICH GOVERNMENT HAD  
TAKEN, COLANOVIC SUGGESTED SURVEY BE REDRAFTED IN PART  
TO LAY GREATER STRESS ON COST-PUSH AND ROLE IMPORTED  
INFLATION. EDR COMMITTEE AGREED.

4. ON BALANCE PAYMENTS, YUGOSLAV DELEGATION NOTED  
THAT RISE FOREIGN EXCHANGE RESERVES HAD GREATLY HELPED  
NEW BORROWING ON MORE FAVORABLE TERMS. ALTHOUGH TOTAL  
DIRECT INVESTMENT AND JOINT-VENTURES WERE SMALL, VOLUME  
WAS RISING AND ABOUT \$150 MILLION HAD BEEN INVESTED IN  
FIRST FOUR MONTHS 1973. NEW US LAW COVERING POLITICAL  
RISKS ON FOREIGN INVESTMENT HAD ALSO STIMULATED US DIRECT  
INVESTMENTS IN YUGOSLAVIA. REMITTANCES FROM  
WORKERS ABROAD EXPECTED BE ABOUT \$1 BILLION IN 1973.

5. ACCORDING TO MEMBERS YUGOSLAV DELEGATION, THE  
GOVERNMENT HAD NOT INTENTION INTRODUCING ADMINISTRATIVE  
MEASURES TO STOP EMIGRATION SKILLED LABOR. RATHER,  
RATIONALIZATION OF INDUSTRY AND GREATER USE FOREIGN  
CAPITAL AND JOINT-VENTURES WAS MORE APPROPRIATE  
APPROACH.  
BROWN

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